



CHUM Limited

ANNUAL REPORT YEAR ENDED AUGUST 31, 1978



Offices and studios of CITY-TV,
located on Queen Street East, Toronto.
CHUM Limited received approval
to acquire 67.2% of Channel Seventynine
Limited on July 26, 1978.

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CHUM Limited

HEAD OFFICE

1331 Yonge Street, Toronto, Ontario M4T 1Y1

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
Toronto, Ottawa, Montreal, Halifax,
Regina, Calgary, Vancouver

SOLICITORS

Fasken & Calvin

AUDITORS

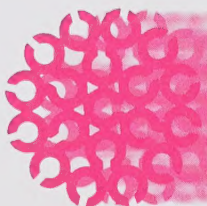
Price Waterhouse & Co.

BANKERS

The Royal Bank of Canada

STOCK EXCHANGE LISTINGS

Toronto, Montreal, Vancouver



THE CHUM GROUP

BRITISH COLUMBIA

CFUN Vancouver
"Music by Muzak" for Vancouver and Victoria

ALBERTA

"Music by Muzak" for Calgary

MANITOBA

CFRW Winnipeg
CHIQ-FM Winnipeg

ONTARIO

CHUM Toronto
CHUM-FM Toronto
CITY-TV Toronto
CFRA Ottawa
CFMO-FM Ottawa
CKPT Peterborough
CKQM-FM Peterborough
CKVR-TV Barrie

HUCHM Productions Limited
"Music by Muzak" for the Province of Ontario

National Security Systems Limited, Toronto

Ottawa Football Club Limited, Ottawa

The Telephone Store Limited, Toronto

MARITIMES

CJCH Halifax
CIOO-FM Halifax

Atlantic Television System

— CJCH-TV Halifax

— CJCB-TV Sydney

— CKCW-TV Moncton/Charlottetown

— CKLT-TV Saint John

DIRECTORS AND OFFICERS

Allan Waters
Toronto
President and Director

J. Wesley Armstrong
Toronto
Vice-President, Sales
and Director

Alexander A. Forbes, C.A.
Toronto
Vice-President, Finance,
Secretary-Treasurer and Director

J. Michael Robinson
Toronto
Partner, Fasken & Calvin
Director

Fred Sherratt
Toronto
Vice-President,
Programming and Operations,
and Director

Ralph T. Snelgrove
Barrie
Chairman of the Board,
CKVR Channel 3 Limited
Director

Robert M. Sutherland, Q.C.
Toronto
Partner, Fasken & Calvin
Director

Taylor C. Baiden, B.Comm., C.A.
Toronto
Controller

FINANCIAL HIGHLIGHTS

Year ended August 31

	<u>1978</u>	<u>1977</u>
Revenue, less agency commissions	\$42,060,000	\$37,778,000
Net earnings before extraordinary items	2,944,000	2,982,000
Earnings per Class B and Common Share before extraordinary items	0.91	0.91
Net earnings per Class B and Common Share	0.26	0.92
Working capital from operations	5,545,000	5,388,000
Working capital at end of year	6,822,000	6,765,000
Provision for income taxes	4,100,000	4,359,000
Long-term debt	12,922,000	3,865,000
Shareholders' equity	23,879,000	24,590,000
Dividends paid		
— Class B shares	622,000	526,000
— Common shares	319,000	264,000
Capital expenditures	2,799,000	2,914,000



Allan Waters,
President

REPORT TO THE SHAREHOLDERS

CHUM Limited strengthened its position in the year ended August 31, 1978, demonstrating our optimism in the future of the Canadian economy.

Revenue increased to \$42,060,000, compared to \$37,778,000 for the corresponding period last year.

Earnings before extraordinary items of 91¢ per share were the same as at August 31, 1977. It should be noted that the 1978 results exclude any revenue and earnings from Goldfarb Consultants Limited and Accu-Tab Computer Services Limited; these investments were disposed of in January, 1978 with effect from September 1, 1977.

CHUM Limited paid a special dividend of 5¢ per share on both the Common and Class B stock this year. In total, \$941,000 in dividends was passed on to the Company's shareholders in the 12 months ended August 31, 1978, compared to \$790,000 last year.

The results of the operation of the Ottawa Football Club have been consolidated as of January 31, 1978, the Club's year-end. The Rough Riders have enjoyed a successful season, and finished in first place in the Eastern Football Conference.

Almost \$2.8 million was spent this year on capital expenditures. We renovated the offices and redesigned and re-equipped the studios of CHUM-AM and CHUM-FM in Toronto, and expanded the head office by moving our sales and accounting divisions into the CHUM-owned building next door. New equipment purchases and technical improvements were made in the ATV System, CJCH-AM and CIOO-FM Halifax, CKVR-TV Barrie, and at CFUN Vancouver. "Music by Muzak" for Ontario moved to larger premises in Markham from which the sales and servicing of customers is more easily accommodated. Working capital was maintained at an excellent level of \$6,822,000, compared to \$6,765,000 for the same period last year.

On July 26, 1978, the Canadian Radio-television and Telecommunications Commission approved CHUM Limited's application to acquire controlling interest in Channel SeventyNine Limited, CITY-TV Toronto. The purchase has been completed, and the results of its operations will be included in the CHUM Limited consolidated financial statements from September 1, 1978. CITY-TV was inaugurated in 1972 as an independent Toronto community station "to provide a television service uniquely different" from the services then available in the city. The station will continue to serve Toronto with programming which is local and of special interest to Toronto residents.

Already, improvements in CITY-TV's on-air schedule have taken effect. "CityPulse", CITY-TV's major newscast added a daily half-hour to its broadcast time and is now scheduled from 6-7 pm and from 10-11 pm, giving Toronto its only TV newscast at 10 pm. Plans are under-way to establish a radio and television production facility in Toronto for use by CITY-TV, CKVR-TV Barrie, CHUM-AM and CHUM-FM. This production centre will be used to provide new avenues for the development and exposure of Canadian talent, thereby significantly increasing the amount of Canadian-produced material for syndication. On November 4, 1978, the first of ten planned live stereo simulcasts was aired on CITY-TV and CHUM-FM. The program featured Canadian artist Murray McLauchlan, and was well received. CITY-TV's service to Toronto viewers will be aided substantially by these program additions.

CHUM Limited has applied for permission to establish new AM and FM radio stations in Edmonton, Alberta. The proposed operation would be owned 52% by CHUM Limited, and 48% by a group of Western Canadians, the majority of whom are from Edmonton. The two applications will be heard at the CRTC's public hearing scheduled for Edmonton in early December.

In addition, the Company's wholly-owned subsidiary, CHUM Western Limited, has an application pending before the CRTC for authority to establish an FM station in Vancouver. A decision should be forthcoming within a few months.

The Atlantic Television System has proposed a five-year development plan to further improve television service in Nova Scotia. In total, the plan provides for the establishment of eight new transmitters in that province, a power increase at an existing transmission site, and a new ultra high frequency program service originating from Halifax. At a public hearing of the CRTC in September, ATV made application for the first phase of this proposal. Decisions on these applications are anticipated within the next few months.

We believe that our acquisition of CITY-TV Toronto, and our applications for new broadcast facilities in Halifax, Vancouver and Edmonton, demonstrate our confidence in the Canadian Broadcasting System.

The first step in the Company's long-term plan to establish a daily coast-to-coast radio newscast came to fruition on September 6th. CHUM Toronto and CFRA Ottawa now air live, at 12 noon Monday through Friday, a 10-minute, two-way broadcast containing news, editorials and opinion on Canadian stories. We expect that by early 1979, there will be suitable transmission lines available to extend this national newscast to other CHUM Group stations. This daily newscast would then contain live reports, prepared in Halifax, Peterborough, Vancouver, Winnipeg and, hopefully, Edmonton, the capital of Alberta.

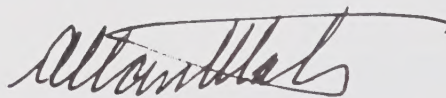
Following extensive research into the consumer and sales potential of a magazine devoted exclusively to contemporary music, CHUM Limited launched "The New Music" magazine in August. The full-colour magazine, distributed

free to 100,000 persons in its 13-30 year-old target group, deals with rock music and all aspects of youth lifestyle. To date, reader and advertiser reaction has been extremely positive.

With a deep sense of loss, we recorded the death in February of CHUM Limited director, Arthur Deane Nesbitt. Mr. Nesbitt was elected a director when CHUM Limited became a public company in 1967. His sound judgement, wise counsel and gentlemanly bearing commanded the respect of all who were privileged to know him. He was a man of vision, wisdom and integrity, and had few peers in the business of investment and finance. Mr. Nesbitt gave generously of his time and vast talents to the growth and development of Canada. He is missed.

The CHUM Group has dedicated itself to creating innovative ways to disseminate news from one part of the country to the other, and to creating documentary and musical programs which help the Canadian identity to be understood by the various cultures and regions of Canada. There are many strengths in group ownership of broadcasting stations. We believe that this is understood by the broadcast regulators, the CRTC, and that they will continue their policy of allowing group owners to expand, providing such expansion is accompanied by commitments which are in the public interest and which will result in significant benefits to the Canadian Broadcasting System.

We intend to pursue our policy of expansion in broadcasting and associated areas.



Allan Waters,
President

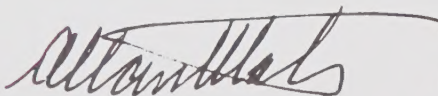
Toronto, Ontario
November 20, 1978

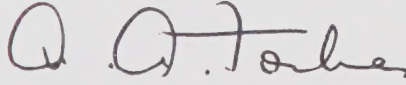
CONSOLIDATED BALANCE SHEET

ASSETS

	August 31	
	1978	1977
Current assets:		
Cash	\$ 578,929	\$ 1,351,429
Short-term deposits	4,100,000	2,403,900
Accounts receivable	8,110,291	7,276,451
Program rights	2,941,776	—
Inventories, at the lower of cost and net realizable value	616,391	462,388
Prepaid expenses and other assets	482,325	367,404
	<u>16,829,712</u>	<u>11,861,572</u>
Investments	—	407,192
Program rights	3,804,662	—
Notes receivable (Note 4)	1,580,150	—
Fixed assets, at cost:		
Land	1,545,431	1,532,731
Buildings and equipment	25,946,624	19,932,648
	<u>27,492,055</u>	<u>21,465,379</u>
Less: Accumulated depreciation	16,168,441	13,357,866
	<u>11,323,614</u>	<u>8,107,513</u>
Other assets:		
Franchise and patents, at cost less amortization	418,352	500,966
Excess of cost of shares of subsidiary companies over book value of underlying assets and other goodwill, at cost less amortization (Note 3)	19,004,433	16,238,548
	<u>19,422,785</u>	<u>16,739,514</u>
	<u><u>\$52,960,923</u></u>	<u><u>\$37,115,791</u></u>

APPROVED BY THE BOARD:

 Director

 Director



LIABILITIES AND SHAREHOLDERS' EQUITY

	August 31	
	1978	1977
Current liabilities:		
Bank loans	\$ 1,135,000	\$ 1,885,500
Accounts payable and accrued liabilities	3,962,885	2,417,506
Income taxes payable	706,283	755,476
Current portion of long-term debt	913,893	38,302
Program rights	3,289,367	—
	<u>10,007,428</u>	<u>5,096,784</u>
Program rights	2,418,435	—
Long-term debt (Note 5)	12,921,941	3,865,267
Minority interests	3,734,394	3,563,569
Shareholders' equity:		
Capital stock (Note 7)		
Non-voting Class B shares without par value —		
Authorized — 7,940,000 shares		
(1977 — 8,000,000 shares)		
Issued — 2,132,500 shares		
(1977 — 2,192,500 shares)	9,256,260	9,516,660
Common shares without par value —		
Authorized — 1,500,000		
Issued — 1,100,403	987,630	987,630
Retained earnings	13,634,835	14,085,881
	<u>23,878,725</u>	<u>24,590,171</u>
	<u>\$52,960,923</u>	<u>\$37,115,791</u>

AUDITORS' REPORT

To the Shareholders of CHUM Limited:

We have examined the consolidated balance sheet of CHUM Limited and subsidiary companies as at August 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at August 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
November 8, 1978

PRICE WATERHOUSE & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended August 31	
	1978	1977
Revenue, less agency commissions (Note 6)	\$42,060,207	\$37,778,340
Operating expenses	32,116,943	27,707,229
	9,943,264	10,071,111
Other expenses (income):		
Interest expense, including \$357,083 on long-term debt (1977 — \$463,086)	534,889	543,265
Interest and other income	(237,095)	(219,227)
Depreciation	1,599,110	1,378,190
Amortization of franchise and goodwill	133,496	90,614
	2,030,400	1,792,842
Earnings before income taxes and minority interests	7,912,864	8,278,269
Provision for income taxes	4,100,400	4,359,116
	3,812,464	3,919,153
Minority interests in earnings of subsidiary companies	868,464	936,698
Net earnings before extraordinary items	2,944,000	2,982,455
Extraordinary items: (Note 2)		
Income tax reduction realized on the carry-forward of prior years' losses	—	249,100
Provision for loss on investment	(376,000)	(200,000)
Excess of carrying cost over consideration received on sale of subsidiary companies	(1,738,304)	—
	(2,114,304)	49,100
Net earnings for the year	\$ 829,696	\$ 3,031,555
Earnings per Class B and common share:		
Net earnings before extraordinary items	\$0.91	\$0.91
Extraordinary items:		
Income tax reduction realized on the carry-forward of prior years' losses	—	0.07
Provision for loss on investment	(0.11)	(0.06)
Excess of carrying cost over consideration received on sale of subsidiary companies	(0.54)	—
	(0.65)	0.01
Net earnings for the year	\$0.26	\$0.92

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended August 31	
	<u>1978</u>	<u>1977</u>
Source of funds:		
Operations —		
Net earnings before extraordinary items	\$ 2,944,000	\$2,982,455
Add: Charges not affecting working capital —		
Depreciation and amortization	1,732,606	1,468,804
Minority interests in earnings of subsidiary companies	868,464	936,698
Working capital from operations	5,545,070	5,387,957
Increase in long-term debt	11,000,000	125,000
Disposal of subsidiary companies net of working capital of \$830,088	129,913	—
Income tax reductions relating to losses carried forward and goodwill	35,268	287,771
Other	29,970	—
	16,740,221	5,800,728
Application of funds:		
Additions to fixed assets	2,799,223	2,913,770
Reduction of long-term debt	1,901,393	990,802
Notes receivable (Note 4)	1,485,700	—
Dividends paid	941,142	790,297
Dividends paid to minority shareholders of a subsidiary	208,310	163,270
Acquisition of 60,000 Class B shares of CHUM Limited for cancellation	600,000	—
Acquisition of subsidiaries and businesses including working capital deficit assumed of \$76,764 (1977 working capital \$379,923) (Note 3)	4,426,957	1,190,458
Repayment of bank loans on acquisition of subsidiary company	4,320,000	—
Other	—	1,580
	16,682,725	6,050,177
Increase (decrease) in working capital	57,496	(249,449)
Working capital at beginning of year	6,764,788	7,014,237
Working capital at end of year	\$ 6,822,284	\$6,764,788

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended August 31	
	<u>1978</u>	<u>1977</u>
Retained earnings at beginning of year	\$14,085,881	\$11,844,623
Net earnings for the year	<u>829,696</u>	<u>3,031,555</u>
	14,915,577	14,876,178
Deduct:		
Dividends paid (24¢ per share regular; 5¢ per share special in 1978) — Class B shares	622,025	526,200
Common shares	<u>319,117</u>	<u>264,097</u>
	941,142	790,297
Excess of purchase price over the average paid-in value of Class B shares acquired and cancelled during year	<u>339,600</u>	<u>—</u>
	1,280,742	790,297
Retained earnings at end of year	<u><u>\$13,634,835</u></u>	<u><u>\$14,085,881</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 1978

1. Accounting policies:

Consolidation —

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The accounts of a 95% owned subsidiary are included as at January 31, 1978, its fiscal year end.

Program rights —

For Channel SeventyNine Limited, the costs of program rights are amortized over the period of the rights contract on the basis of usage. Such costs are allocated between current and non-current assets based on estimated usage in the next year. Costs of program rights are written off when deemed to be of no value. Liabilities for these program rights are reflected in the balance sheet when the Company is committed; at that time the related costs are recorded as assets.

For other subsidiary television companies, the costs of program rights are written off as incurred.

Depreciation —

Depreciation is provided in the accounts of the companies on the reducing balance method at the maximum rates allowed for income tax purposes which are buildings — 5%; equipment — 20% to 25%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Franchise and patents —

The franchise and patents are being amortized on a straight-line basis over the period of the franchise agreement and the life of the patents.

Goodwill —

It is the Company's policy not to amortize the excess cost of shares of subsidiary companies and other goodwill relating to acquisitions made prior to April 1, 1974 since these amounts are considered to be of continuing value. Goodwill relating to acquisitions made after April 1, 1974 is being amortized on a straight-line basis over periods of 20 to 40 years.

Income taxes —

The tax saving resulting from the portion of goodwill allowed as a deduction in computing taxable income is credited against the cost of the goodwill.

2. Extraordinary items:

Sale of subsidiary companies:

The excess of carrying cost over consideration received on sale of subsidiary companies resulted from the sale of the shares of Goldfarb Consultants Limited and two other small subsidiaries.

Provision for loss on investment:

This represents provision for loss on the investment of Frolic Toys Limited. Complete cost of this investment is now fully reserved.

3. Acquisition of subsidiary company:

Under agreements completed August 21, 1978, effective for accounting purposes on August 31, 1978, the Company acquired 89.1% of the issued share capital of Channel SeventyNine Limited (CITY-TV). Immediately following the purchase, the Company sold 21.9% of the share capital to the Founders and certain other employees of CITY-TV thus reducing its holding to 67.2% of the issued shares. As consideration for the sale the Company received non-interest bearing promissory notes due on or before December 31, 1981 at minimum amounts aggregating \$1,485,700. The amounts are subject to escalation if repayment is made after that date up to December 31, 1983.

The following is a summary of the transaction:

Underlying net assets of CITY-TV	
Tangible assets	\$3,506,126
Tangible liabilities	5,335,061
	<u>(1,828,935)</u>
Program rights and other intangible assets	6,757,302
Program right liabilities	5,707,802
	<u>1,049,500</u>
Deficiency of underlying assets	<u>\$ (779,435)</u>
Deficiency of underlying net assets acquired	
by CHUM Limited (67.2%)	(523,780)
Cash consideration	<u>4,350,193</u>
Excess of consideration over deficiency	
of underlying net assets	<u>\$4,873,973</u>

The Founders and other employee shareholders of CITY-TV have the option to require CHUM Limited to purchase up to 294,464 of their shares in CITY-TV (10.9% of the issued share capital) at a price of \$3 per share at various dates and under certain conditions during the period up to December 31, 1981.

4. Notes receivable:

Non-interest bearing notes, secured by shares of a subsidiary (Note 3)	\$1,485,700
Non-interest bearing notes secured by mortgages, receivable in 5 equal annual instalments, 1979 - 1983	94,450
	<u>\$1,580,150</u>

5. Long-term debt:

	August 31	
	1978	1977
Term bank loan repayable in annual instalments of \$900,000 in August 1979 and 1980, \$1,200,000 in August 1981 to 1989, with the balance due August 1990, interest at 1¾% above prime bank rate (1)	\$13,700,000	\$3,600,000
Promissory notes —		
Interest bearing at 11%	—	112,500
Non-interest bearing	—	41,933
Mortgages, with interest at 5% and 7% due in instalments to 1986	135,834	149,136
	13,835,834	3,903,569
Less: Current portion	913,893	38,302
	<u>\$12,921,941</u>	<u>\$3,865,267</u>

The principal repayments of long-term debt required in each of the next five years ended August 31, are as follows:

1979	\$ 913,893
1980	914,526
1981	1,215,205
1982	1,215,932
1983	1,216,711

- (1) The term bank loan is unsecured; however, if requested at any time by the bank, the Company has undertaken to provide, within thirty days, security consisting of general assignments of receivables of all companies in the group, fixed charges on the shares of the subsidiaries and floating charges on the assets of all the companies.

	Year ended August 31	
	1978	1977
6. Revenue:		
Revenue is divided in the following proportions:		
Broadcasting, less agency commissions	82%	81%
Other	18%	19%
	<u>100%</u>	<u>100%</u>

7. Capital stock:

- (a) The holders of the Class B shares are entitled to receive, if, as and when declared by the board of directors, annual non-cumulative dividends at the rate of 24¢ per share. No dividends shall be declared on the common shares in any year until dividends of 24¢ per share have been paid on the Class B shares. Whenever in any year dividends of 24¢ per share have been paid on both the Class B and common shares, any further dividends shall be paid equally on the Class B and common shares.

The Class B and common shareholders are entitled to share equally in any distribution of the Company's assets on winding up.

- (b) Options are outstanding to purchase 20,000 non-voting Class B treasury shares exercisable at \$14.00 per share until expiry on March 15, 1983.
- (c) During the year the Company acquired and subsequently cancelled 60,000 Class B shares. These shares were accepted in full settlement of promissory notes held by the Company aggregating \$600,000.

8. Income taxes:

As at August 31, 1978 certain subsidiary companies had non-capital losses available for carry forward to future periods, calculated on the accounting basis, amounting to approximately \$5,406,000. These losses are summarized as follows:

Losses for income tax purposes expiring in 1979	\$ 743,000
1980	66,000
1981	41,000
1982	1,566,000
1983	532,000
	<u>2,948,000</u>
Excess of undepreciated capital cost of fixed assets over net book value	2,458,000
	<u>5,406,000</u>

In addition capital losses of approximately \$439,000 are available to be carried forward against capital gains realized in future years.

No recognition has been given in the consolidated financial statements to the potential future tax saving resulting from the availability of these losses.

9. Lease commitments:

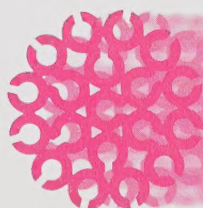
The Company and its subsidiaries are committed under leases for rental of properties, broadcasting facilities and other equipment extending for varying periods to 1999 in the aggregate minimum amount of approximately \$7,195,000. Rental expense for such facilities for the year ended August 31, 1978 amounted to \$689,000 and total payments required in each of the next five years are: 1979 — \$796,000; 1980 — \$761,000; 1981 — \$704,000; 1982 — \$637,000; 1983 — \$567,000.

10. Anti-Inflation Program:

CHUM Limited and its subsidiaries have been subject to, and believe they have complied with, controls on prices, profits, compensation and dividends under the Anti-Inflation Act.

11. Statutory information:

Remuneration of directors and senior officers, as defined by The Business Corporations Act of Ontario, amounted to \$654,100 for the year ended August 31, 1978 (1977 — \$644,200).





CHUM Limited